



REDACTED – FOR PUBLIC INSPECTION

April 26, 2013

Ex Parte Notice

Ms. Marlene H. Dortch, Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

Re: *Connect America Fund, WC Docket No. 10-90; High-Cost Universal Service Support, WC Docket No. 05-337*

Dear Ms. Dortch:

On behalf of Rural Telephone Service d/b/a Nex-Tech (“Nex-Tech”), pursuant to the procedures outlined in the Third Protective Order adopted in the above referenced proceedings, please find enclosed for filing an original and one copy of the Public version of an Ex Parte Notice and attached confidential materials provided by Nex-Tech in the aforementioned dockets. A version containing Confidential information is also being filed separately under seal with the Secretary's Office via hand-delivery. Finally, a copy of the Ex Parte Notice and the Public version of the enclosures have been submitted via ECFS.

Should you have any questions concerning the foregoing request, please contact the undersigned.

Sincerely,

/s/ Michael R. Romano

Michael R. Romano
Senior Vice President - Policy

Enclosures



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Re: *Connect America Fund, WC Docket No. 10-90; High-Cost Universal Service Support, WC Docket No. 05-337*

Dear Ms. Dortch:

On Wednesday, April 24, 2013, the undersigned, on behalf of NTCA–The Rural Broadband Association (“NTCA”), together with Larry Sevier, CEO/General Manager of Rural Telephone Service d/b/a/ Nex-Tech (“Nex-Tech”), Rhonda Goddard, Chief Operating Officer – Regulated Services of Nex-Tech, and Mike Pollock, Chief Operating Officer – Competitive Services of Nex-Tech, met separately with: (1) Commissioner Ajit Pai, and his Legal Advisor, Nicholas Degani; and (2) Priscilla Delgado Argeris, Legal Advisor to Commissioner Jessica Rosenworcel, to discuss matters in the above-referenced proceedings. Nex-Tech provided the attached presentation in these meetings.

Standalone Broadband Support – a “Connect America Fund” for all Rural Consumers. Consistent with recent *ex parte* presentations, we discussed the need for technical fixes to the Commission’s long-standing “no barriers” policy to ensure that consumers in rural areas can obtain the affordable fixed broadband services that are in great demand and that also provide the essential foundation for other communications services, including over-the-top voice and wireless services. Specifically, consistent with those prior presentations, we discussed how providing support for loops that are used to provide standalone broadband services would promote and accelerate the ongoing IP evolution, and finally provide the basis for a Connect America Fund that supports broadband-capable networks that enable advanced communications and enhanced consumer choice in *all* rural areas. *See, e.g., Ex Parte* Letter from Michael R. Romano, NTCA, to Marlene H. Dortch, Secretary, Federal Communications Commission (the “Commission”), WC Docket No. 10-90, *et al.* (filed Feb. 22, 2013); *Ex Parte* Letter from Michael R. Romano, NTCA, to Marlene H. Dortch, Secretary, Commission, WC Docket No. 10-90, *et al.* (filed April 1, 2013). We discussed the importance of finding a solution to this problem in particular for Nex-Tech’s consumers and its operations, as the company has tried to respond proactively to consumer demands and preferences for broadband, only to suffer adverse consequences for doing so in the form of more unsupported network costs and lower voice loop counts (that drive up the company’s apparent cost-per-loop despite the fact that it is actually delivering more connections to consumers).

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Regression Analysis Concerns. We discussed continuing concerns with respect to retroactive application of regression analysis-based caps pending further changes contemplated by the Commission's recent *Sixth Reconsideration Order* and additional analysis, development, and testing still needed with respect to the caps and the underlying model. Nex-Tech explained the substantial efforts that it has made to cut costs as a result of the imposition of the caps, but expressed concern that such efforts would undermine its ability to deliver services for consumers and fulfill the mission of the stimulus project that it had sought in response to the call of the administration to create jobs and deploy infrastructure – including, in some places, the replacement of decades-old lead cable that would not support quality broadband services. Nex-Tech also noted that these efforts to cut costs unfortunately would not be reflected in resulting support for at least two years because of the manner in which the model operates. We further expressed concerns about the uncertainty that remains regarding how the model will be updated and modified for 2014 and beyond, thereby chilling investment in rural broadband. The meeting participants urged the Commissioner and his colleagues to ensure that greater visibility and predictability can be obtained as soon as possible.

Reporting Requirements. Nex-Tech highlighted the cumulative effect of reporting requirements on small service providers, noting that it was subject to *several hundred reports each year* between telecommunications regulatory reports at the federal and state levels and other federal and state governmental compliance and monitoring reports. We noted specifically that at a time when rural, rate-of-return local exchange carriers such as Nex-Tech face significant uncertainty and are being asked to “do more with much less,” and given that such carriers are already subject to significant levels of oversight unmatched elsewhere in the industry, it is incongruous to adopt and implement numerous new reporting requirements that effectively require companies to redeploy significant employee resources toward administrative reporting rather than service delivery. We acknowledged the need to ensure reasonable accountability in the use of universal service support, but we urged some rationalization of all of the various reports, audits, and other compliance requirements – especially in a time of tightening budgets and as yet even more reporting requirements come online.

Pursuant to Section 1.1206 of the Commission's rules, a copy of this letter and a redacted copy of the enclosures are being filed via ECFS, while hard copies of this letter and redacted and Confidential versions of the enclosures are also being submitted to your office in accordance with the Third Protective Order in the above-referenced proceedings.

Sincerely,

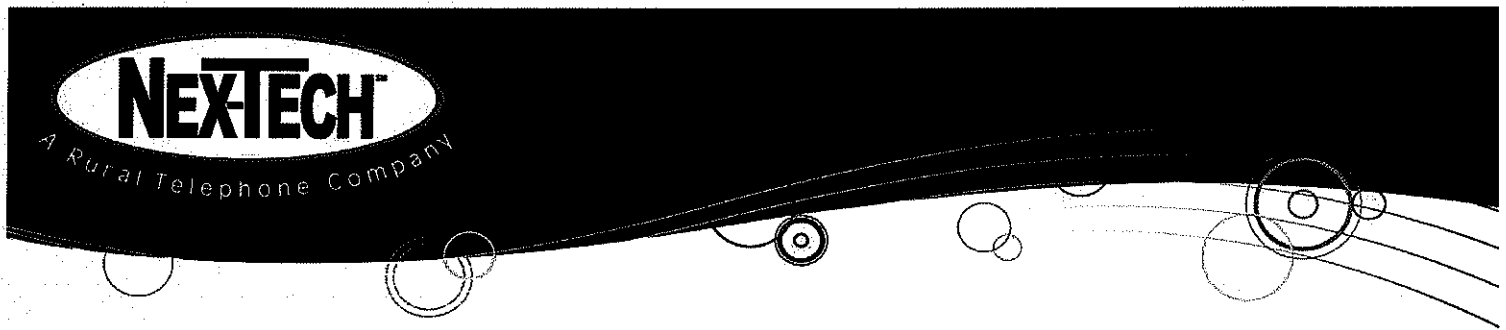
/s/ Michael R. Romano

Michael R. Romano

Senior Vice President - Policy

Enclosures

cc: Commissioner Ajit Pai
Nicholas Degani
Priscilla Delgado Argeris



Company Background:

- Rural Telephone incorporated in 1951, subsidiary operation, Nex-Tech, incorporated in 1989, collectively doing business as Nex-Tech.
- Currently employ 368 employees, 350 full-time and 18 part-time.
- Have 24,655 access lines and 23,421 broadband customers serving residents, businesses, and community anchor institutions.
- Nex-Tech has built broadband infrastructure in more than a 9,300 square mile area in western Kansas, which is roughly the size of the State of Maryland. The service area extends 171 miles west to east and 118 miles north to south. *Exhibit A.*
- Nex-Tech's monumental investments in its broadband network have enabled residents, schools, libraries, hospitals, clinics, law enforcement agencies and senior/disability centers in central and western Kansas to tap the power of cutting-edge broadband technology.
- Community and economic development initiatives have always been a cornerstone at Nex-Tech resulting in multiple awards, including:
 - Nex-Tech: Winner of the 2002 Economic Developer of the Year by the National Rural Economic Developers Association.
 - Osborne Industries: Winner of the 2010 Governor's Exporter of the Year award in part due to the 75 Mbps bandwidth service provided to this enterprise.
 - Nex-Tech: Winner of the 2012 Governor's Award of Excellence given to the top business in the State of Kansas annually.
- In 2006, our ILEC operation acquired 10 rural exchanges from Sprint:
 - These exchanges were 99% unserved with broadband.
 - Borrowed \$55 million from RUS, along with internal equity funds to build 100% broadband capable plant. This loan matures in late 2019.
 - Achieved a 70% broadband take rate which created economic development opportunities, jobs, and brought young people back to central and western Kansas.

➤ In 2009, President Barack Obama announced the ARRA Broadband Initiatives Program:

- Nex-Tech applied for and received funding in the amount of \$101 million, of which \$51 million were loan funds through RUS.
- Principal payments on the ARRA loans began in 2011. These loans are scheduled to mature in 2028.
- To qualify for the stimulus funding, RUS required a financial feasibility study to ensure the plan was viable. The financial analysis was prepared using the regulatory framework and revenue streams in place at the time, which included sufficient and predictable universal service funding. *Exhibit B*
- Followed policies and procedures under the guidance and specifications of RUS in building the broadband network.
- Achieved a 70% broadband take rate in the communities and rural areas built with stimulus funding.
- Upon completion of the stimulus build, broadband services will be available to over 9,300 square miles in remote, rural, central and western Kansas. *Exhibit A.*
- To ensure everyone has access to the Internet, free broadband and Wi-Fi services are provided to every library in our footprint. *Exhibit C.*
- Followed the President's initiative to create jobs and bring broadband to unserved and underserved rural areas.

➤ Wireless Technology:

- There are carriers providing wireless service in portions of central and western Kansas. The fact is, wireless service will not work in much of central and western Kansas without Nex-Tech's fiber network.
- Nex-Tech provides 281 circuits to 120 wireless towers utilized by all of the major nationwide wireless carriers. By the end of 2012, all of these towers were receiving more than 10 Mbps connectivity and 13 tower sites have 100 Mbps connectivity. *Exhibit A.*

➤ Broadband Speeds:

- During the past 12 months, our number of customers 6 Mbps or higher has increased by over 21%.
- Redacted bullet. *Exhibit D.*
- Fort Hays State University in Hays, Kansas, is taking 2 Gig service.
- Redacted bullet. *Exhibit E.*

➤ USF/ICC Reform Impacts:

- Redacted bullet. *Exhibit F.*
- Reduced benefits for remaining employees.
- Eliminated construction budget for ILEC operations. Maintenance only budget in 2013 in order to conserve cash for loan payments. *Exhibit G.*
- Eliminated youth internship program.
- Reduced community support by 50% impacting the area's economic development.
- Raised customer voice and Internet rates by approximately 6% to 10%.
- Redacted bullet. *Exhibit H.*

How can you help?

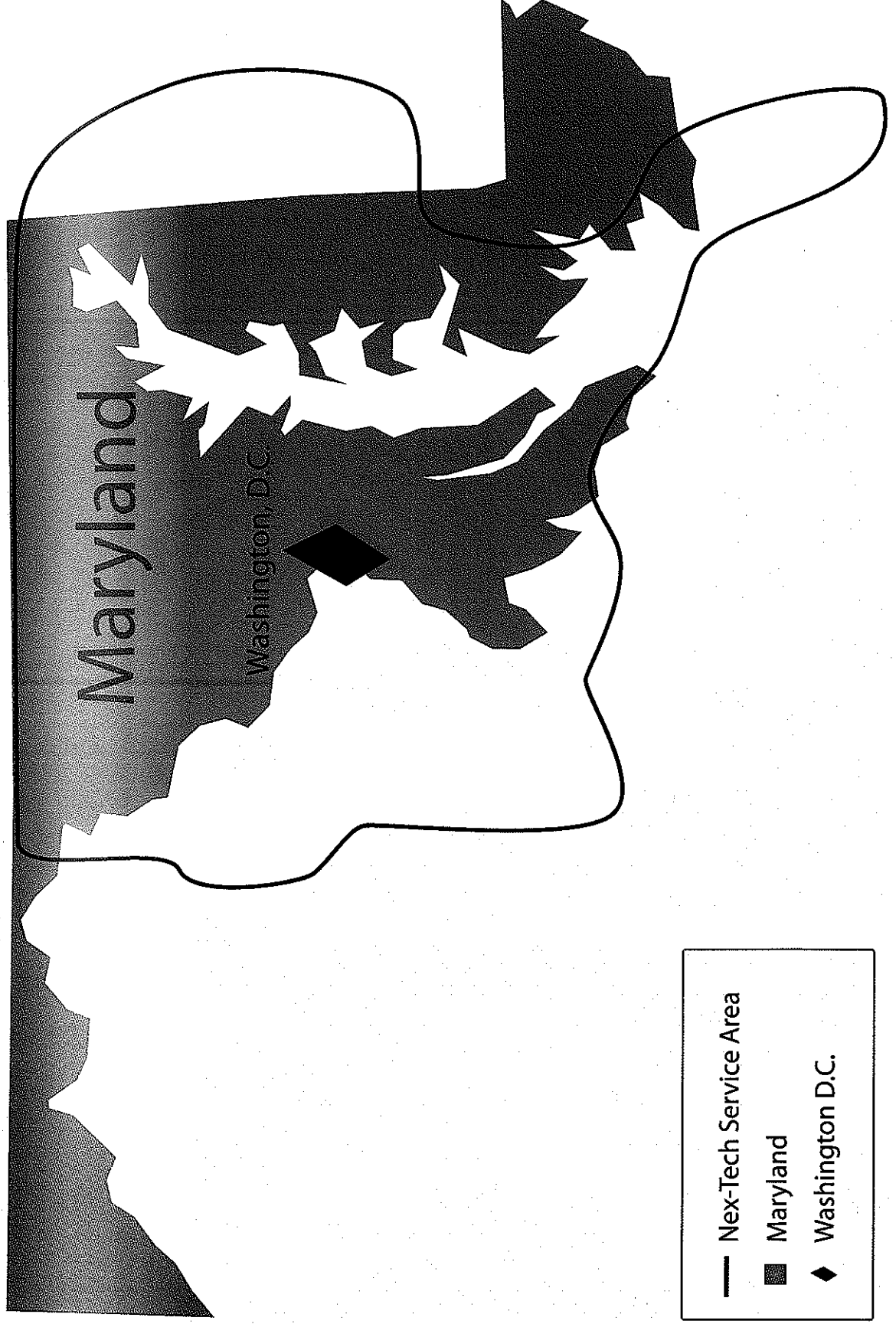
1. Suspend implementation of new FCC rules, pending a 180 day review by the Federal-State Joint Board.
2. Encourage rural broadband by providing a rural LEC "Connect America Fund" for stand-alone broadband and middle mile transport. Carriers who made investments and government agencies that made loans under the old rules need the ability to recover these investments.
3. Notify the FCC task force that rural carriers and consumers are still experiencing rural call termination issues resulting from least cost routing.

Nex-Tech Service Area Including 10 Giga Transport Network and Cell Towers

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Nex-Tech Service Area - Comparison

Redacted - For Public Inspection



Nex-Tech Federal USF - High Cost Support Receipts
ILEC Areas (in Millions)

Redacted - For Public Inspection

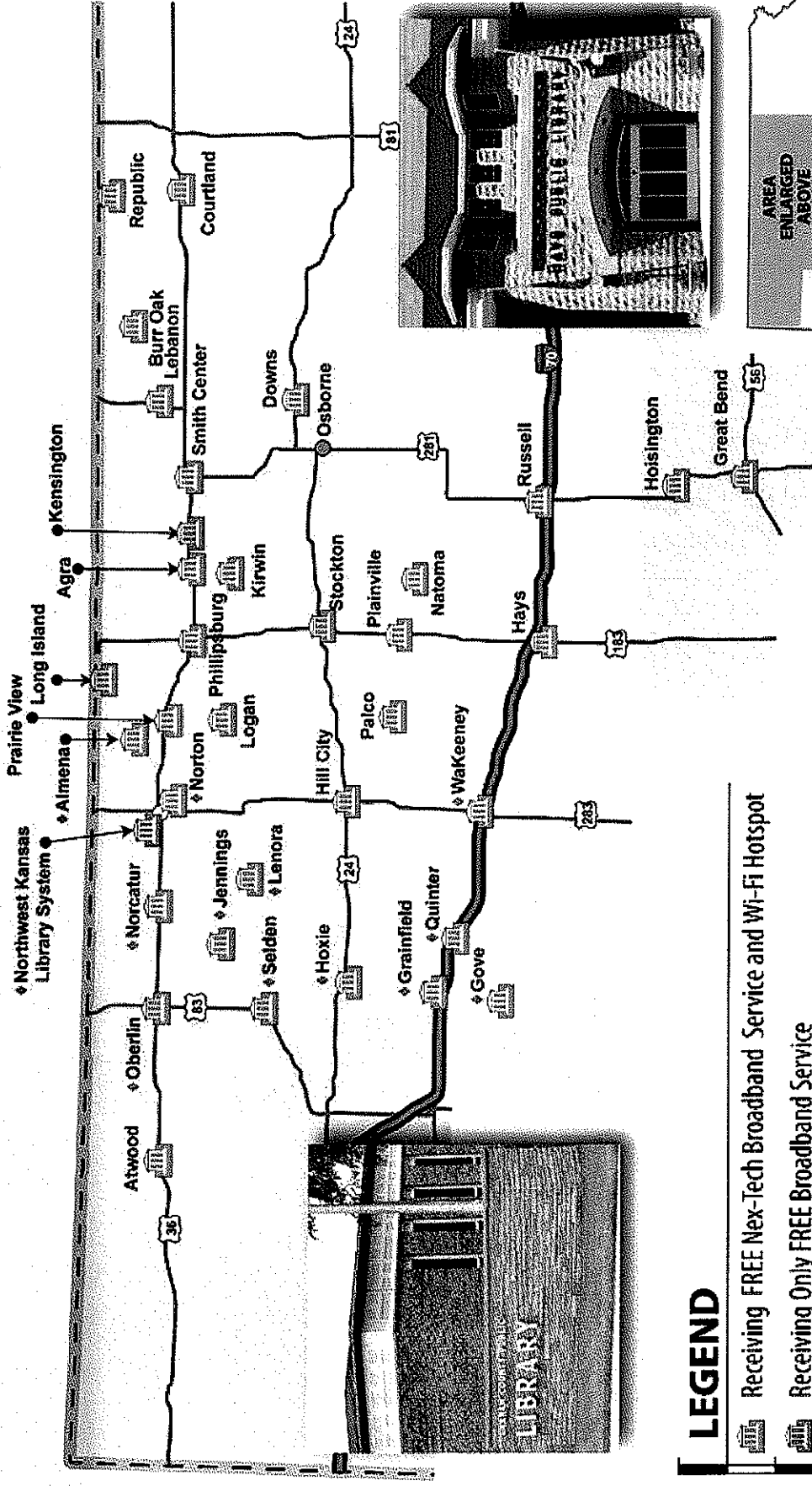
Nex-Tech Federal USF - High Cost Support Receipts
CLEC Areas (in Thousands)

Redacted - For Public Inspection

Nex-Tech

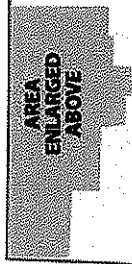
Free Broadband/Wi-Fi Services to Libraries

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LEGEND

- Receiving FREE Nex-Tech Broadband Service and Wi-Fi Hotspot
- Receiving Only FREE Broadband Service
- Members Of The Northwest Kansas Library System
- Nex-Tech Service Area



Nex-Tech Broadband Customers By Speed

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**Nex-Tech Stand-Alone Broadband Customers
ILEC Areas**

Redacted - For Public Inspection

**Nex-Tech Stand-Alone Broadband Customers
CLEC Areas**

Redacted - For Public Inspection

Nex-Tech Employment History

Redacted - For Public Inspection

**Nex-Tech Infrastructure Investment
ILEC and CLEC Areas**

Redacted - For Public Inspection

**Nex-Tech Infrastructure Investment
ILEC and CLEC Areas**

Redacted - For Public Inspection

**Cash Flow Forecast
for ILEC Debt Service Payments**

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